

## Motivational factors for foreign investors in the banking sector of Ukraine

The banking system is one of the dynamic areas of the economy, the degree of its stability largely characterizes the economy as a whole, that's why the study of foreign investment in banks is particularly important.

In this article described the motivational factors of foreign investors about investment in the banking sector of Ukraine, determined strengths and weaknesses of the investment climate in Ukraine, built the generalized table of the motivational determinants.

### **investments, capital investments, hedging of risks, international rating, level of corruption**

As a long-term matter, the globalization of trade and financial markets and the associated liberalization of international capital markets may turn out to be the most important economic development of the late 20th century. If this trend continues, and if it is managed well - and its continuation depends on its being managed well - the benefits will be measured ultimately in higher standards of living, as resources are allocated with increased efficiency and risk sharing is improved. However, the increased volume and volatility of capital flows have exposed critical problems in the domestic and international financial systems that will need to be dealt with, including financial sector for vulnerabilities, often in the form of unsound financial and banking systems and deficiencies in financial incentive structures, institutions, and policies.

As we anticipate an economic upturn, transactions in emerging markets are likely to be the top of mind for investors again. Companies considering opportunities in emerging markets need to be aware of some unique risks. Not only they do need to understand who they are doing business with, but also the laws and disclosure requirements can be regarded as well. A foreign investor must conduct a very careful strategy to get an income from the capital investment in the future. So we must distinguish a number of motivational principles that investors follow in making their business.

Taking into account the above-mentioned and following the research of the well-known foreign and home specialists in the field banking can define the problem questions of the article. They are as follows:

- defining lineation of investment climate in the country;
- determining of the foreign capital role for all spheres of the Ukrainian economy;
- determining the motivational bases of organization of foreign cash in flow for the bank sector of Ukraine;
- specifying the basic steps towards the improvement of the investment climate in the country.

The topicality and expediency of the further deepening of the theoretical researches in this direction are constrained with the objective necessity of determination of motivational model of foreign investor and forming effective soil for expansion of bank capital with the help of cash flow from abroad.

Foreign direct investment (FDI) is defined as "investment made to acquire current

interest in enterprises outside of the economy of the investor.” The FDI relationship consists of a parent enterprise and a foreign affiliate which together form a Multinational corporation (MNC). In order to qualify as FDI the investment must afford the parent enterprise control over its foreign affiliate.

Foreign bond investors are rational and sophisticated and influenced by widely accepted reasons for higher interest rates (the trade and fiscal deficits, higher inflation, business recovery). [7]

The analysis of the FDI indices is largely the analysis of the forces that shape decisions to invest and how they interact with market conditions, including conditions within potential host countries.

In order to understand what exactly a foreign investor follows during the choice of the country of investing money will lay down the table of general motivational factors, that will include for itself the most wide spectrum of indexes.

Table 1 - Motivational factors of foreign investors

Bank specific determinants:	<ul style="list-style-type: none"> <li>- a group in that is an establishment</li> <li>- a general size of assets</li> <li>- a level of liquidity of assets</li> <li>- a level and character of credit operations</li> <li>- a level and time period of the obtained deposits</li> <li>- a structure of client base</li> <li>- a structure to the brief-case of securities</li> <li>- Product differentiation and marketing skills, measured by advertising intensity</li> <li>- Management skills</li> <li>- Access to capital</li> </ul>
Locational determinants:	<ul style="list-style-type: none"> <li>- Size of host-country markets</li> <li>- Monetary policy</li> <li>- A level of interest rates of the National bank</li> <li>- A level of state control of the bank sector</li> <li>- A course of national monetary item</li> <li>- A standard of living of people</li> <li>- A level of consumer basket</li> <li>- A level of industry development</li> <li>- A development of middle business</li> </ul>
Policy determinants:	<ul style="list-style-type: none"> <li>- Efficiency of administrative apparatus</li> <li>- Domestic economic stimulation</li> <li>- Investment incentives and performance requirements</li> <li>- Openness to foreign ownership</li> <li>- Repatriation policies</li> <li>- Fiscal regime</li> </ul>

Even though the factors affecting the level of FDI in general are well known, the empirical surveys of FDI could hardly identify the ultimate driving force behind investments and the specific characteristics of business climate that are supportive to foreign capital inflows in Central and Eastern Europe. The explanations mainly offered are the different goals and motivations governing the investments: market-oriented investments vs. factor-oriented investments.

Investors' different tools are used to manage country risk. Their response to policy uncertainties is to postpone investment projects, to withdraw from negotiations, or to leave negotiated commitments unrealized. However, alternative approach is choosing the type of capital contribution. Those investors that have proceeded have typically sought to reduce their

exposure by minimizing their “upfront” capital investment and by making their contributions in kind rather than in cash, or indirectly in the form of loans.[8]

Despite the fact that Ukraine has a strategic geographic location, rich natural resources and relatively cheap skilled labor force, which makes its market an attractive investment environment, the country has not yet achieved the expected potential in attracting foreign capital.

The global economy is now at the stage of transition from post-crisis stabilization to slow down the growth. The main trends of financial market in 2010 were both positive and negative.

To the first group belong the following ones:

- decline of worsening the loan portfolios quality due to the stabilization of the financial position of existing borrowers and moderate activation of lending with more competent risk assessment, in comparison with the pre-crisis period; issue of short-term loans to corporate clients for trade and working capital finance;
- activation of problem assets sales to debt collectors;
- decline of Banks’ losses more than three times: if in 2009 the total NBU loss made UAH 38,5 billion, by the results for November 2010 it reduced to UAH 9,4 billion;
- growth of collateral value after economic rise will bring to redundancy of reserved provisions that are the main reason of bank’s losses; by forecasts, the BSU will reach the break-even activity– 2-d Q 2011;
- improvement of clients payment discipline due to their financial stabilization and need for new loans in future;
- stability of UAH rate during 2010;
- slowdown of retail deposits outflow and renewal of their growth: portfolio increase exceeded UAH 50 billion for 11 months of 2010;
- course on consolidation of banking sector.

To the second belongings we can refer:

- increase of loan exposure: \$111,623 billion – gross external debt of Ukraine; \$28 billion – debt of banks, mainly with foreign capital; \$40 billion – debt of Ukrainian corporations; \$3 billion (UAH 180 billion) – debt of borrowers to banks;
- expensive and ineffective governmental support to problem banks;
- reduction of real economy lending (only 20- 25% of loans were granted to real sector). Banks buy governmental bonds actively, covering the budget deficit; i.e. government is competitor to the economy;
- refinancing of banks by NBU in amount of about UAH 80 billion, greater part of which is not returned by the banks;
- high risks of reputation: Ukrainian banking system takes 137-th place in reliability among 139 participants of competitiveness rating of the World Economic Forum; Marketing management of Strategic development and marketing department;
- increase of Russian capital share: four Russian banks (VTB, PIB, Alpha, subsidiary bank of Sberbank Rossii) hold more than 10% of assets of the Ukrainian banking system, more than 8% of own banking capital, more than 14% of corporate loan portfolio, 7% of retail loan portfolio.

The main risks of macroeconomic environment in 2010-2011 are external and internal.

To the first group refer the following ones:

- Moderate world economic activity as a result of early curtailment of the programmers’ for the stimulation of the economy sharpening of the crisis in the Euro zone;
- Raise of value of external borrowing at the background of sharpening the financial liquidity crisis in the world markets;
- Consolidation of trend on skyrocketing of prices in the world energy markets;

- Deterioration of foreign economic situation: another fall in prices in the world raw materials markets;
- Abandonment by the investment companies of the investment plans or deferment of their implementation for future periods.

To the second group belong the following things:

- Retaining of banks low credit activity;
- Substantial growth of state budget deficit and gaps in the Pension Fund, other funds of social insurance;
- Major increase in prices for natural gas for the enterprises of public heat power industry and for the individual areas;
- Further accumulation of VAT remuneration;
- Considerable issue to finance the budget deficit;
- Reinforcement of the devaluation trends in foreign exchange market;
- Extension of insolvency of the real economy sector;
- The crop yields are lower than forecasted ones;
- Growth of wages payment arrears;
- Increase of the number of unemployed;
- Rise of negative inflationary expectations of the individuals.

An important motivational factor for a foreign investor also is the general rating of the country, thus will point the international rating of Ukraine.

Table 2 - Rating of Ukraine

Rating in natcurrency	S&P	Moody's	Fitch
Long term	BB	B2 B	Long
Short term	B	-	...
Forecast	Stab.	Neg.	Stab.
Rating in foreign currency			
Long term	B+	B2	B
Short-term	B	...	B
Forecast	Stab.	Neg.	Stab.

In 2010 Ukraine took the 162nd place (with the index ranking 46,4%) having deteriorated its last-year result by 10 positions and having slid down to the level of the late 1990s (in 1999 it was 43,7%). The dynamics of Indexes of Economic Freedom clearly demonstrates the fast improvement of the result in comparison with the late 90s, since 2005 Ukraine has started its steady regression move. [6]

However, even the best result of Ukraine – 55,8% reached in 2005 was 3,8 points lower in item 1 than the average world rate (59,6%), meanwhile in 2010 it is already 13 points below.

Thus the row of motivations for foreign investors was outlined by the authors. General economic progress of the country trends is also defined. The ratings of Ukraine and investment risks were given.

It should be mentioned that the basic factor of attractiveness of the national banking system for foreign banks is a receipt of higher income under the condition of the acceptable risk. The stake of foreign capital depends on the size of bank clean margin, profitability of the bank sector, solvency of the country, economic and political stability, trade connections, features of the banking systems, economic factors (Per capita, rate of inflation, interest rates are real GDP).

In most cases the presence of foreign bank capital is more powerful at the low level of taxation and low level of concentration in a bank sphere. Therefore it is necessary to be more

active for Ukraine to take measures to increase the level of concentration of the national bank capital.

As a rule, the foreign bank capital does not carry those charges that are related to implementation of informal duties of local banks before political structures and participating in shadow mechanisms. Arrival of foreign banks correlates with the decline of clean margin of the national banks. That less obstacles is for arrival of foreign capital, both less margin at national banks or greater overhead costs, increase of salary, and also higher administrative and organizational efficiency, predefined by the necessity.

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### **Мотиваційні фактори іноземного інвестування в банківський сектор України**

Банківська система належить до однієї з найдинамічніших сфер економіки, ступінь її стійкості значною мірою характеризує стан економіки в цілому, тому дослідження питань залучення іноземних інвестицій в банківські установи набуває особливого значення

В статті описано мотиваційні пріоритети іноземного інвестора з приводу капіталовкладення в банківський сектор України, визначено слабкі та сильні сторони інвестиційного клімату України, побудовано узагальнюючу таблицю мотиваційних детермінант

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### **Мотивационные факторы иностранного инвестирования в банковский сектор Украины**

Банковская система принадлежит к одной из самых динамичных сфер экономики, степень её стойкости характеризует состояние экономики в целом, именно поэтому исследование вопросов привлечения иностранных инвестиций в банки имеет большое значение

В статье описаны мотивационные приоритеты иностранного инвестора относительно капиталовложения в банковский сектор Украины, очерчено слабые и сильные стороны инвестиционного климата Украины, построено обобщающую таблицу мотивационных детерминант

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